PUBLIC SERVICE PENSION PLAN

BRITISH COLUMBIA

2003 ANNUAL REPORT

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Message from the Trustees

The Public Service Pension Board of Trustees is pleased to present our annual report for the fiscal year ending March 31, 2003. The board is responsible for the management of the pension plan, including the administration and investment of assets. We welcome all new members to the Public Service Pension Plan.

Post-retirement Group Health Benefits

In 2002 and early 2003 the provincial government made changes to health care that increased the cost of providing group health benefits for retired members of the plan. Included in the 2002 changes was a 50% increase in MSP premiums.

The board spent considerable time analyzing the situation to determine how best to provide meaningful group health benefits within the imposed funding constraints. As a result, retired members began to pay a portion of their MSP premium beginning with their December 2002 payment. Changes were also made to Extended Health Benefit deductibles, reimbursements and out-of-country coverage. In addition, the existing dental plan for retired members was discontinued on December 31, 2002. However, the trustees arranged for a new voluntary dental plan to be in place on January 1, 2003, for retired members who elected to pay for dental coverage under a group plan.

The board will continue to monitor costs to ensure that health benefit costs are contained within the funds available.

Security of Basic Pension Benefits

The financial health of the fund and the adequacy of the contribution rates is assessed at least every three years by an independent actuary. The actuarial valuation as at March 31, 2002 indicated that the fund from which basic pension benefits are paid is financially secure. While the investment performance of the past two years has been disappointing, the board takes a long-term approach to fund management and ensures the portfolio is well diversified to provide strong long-term results.

Benefits Administration

The plan is committed to providing high standards of service delivery to its members, and we are pleased to report continued improvement in all service levels.

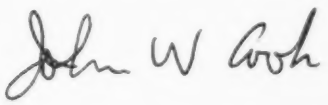
In the past year, the simplification of purchase of service rules was implemented and the backlog of purchase of service requests was reduced. Members can now easily calculate a purchase of service cost themselves using a new Purchase of Service online estimator that is available at **pensionsbc.ca**.

In 2002, a client satisfaction survey was directed to a random selection of recent retirees, active members and employers of the Public Service Pension Plan. The survey results provided positive feedback showing a high level of service satisfaction.

Membership

Currently there are about 53,000 active plan members and about 27,000 retired plan members. The number of retired members increased by 9% during the year and is expected to continue to grow in the next three years.

We look forward to continuing to serve the Public Service Pension Plan and its members. If you would like to contact us, please use the address on the back cover of this report.



John W. Cook, Chair

Trustees as at March 31, 2003

Chair

John W. Cook

Trustee	Appointing Body	Nominating Body	Employer
Ed Bodner	BC Government Retired Employees' Association		Retired
Joyce Burns	BC Government and Service Employees' Union (BCGEU)	Unions other than BCGEU	BC Ferry Corporation
Adam Charania	Provincial Government		Public Sector Employers' Council
Bruce Clow	Provincial Government		BC Buildings Corporation
David Day	Provincial Government	BC Excluded Employees' Association	BC Excluded Employees' Association
Doug Hensby	BCGEU	Professional Employees Association	Professional Employees Association
Derek Johnston	Provincial Government	Crown Corporations Employers' Association	BC Ferry Corporation
Bruce Kennedy	Provincial Government		Public Sector Employers' Council
Margaret Marriott	Provincial Government		BC Pension Corporation (retired)
Ron McEachern	Provincial Government		Public Service Employee Relations Commission
Sandi McLean	BCGEU		Ministry of Finance
Paul Martin	BCGEU		BCGEU
David Vipond	BCGEU		BCGEU
Diane Wood	BCGEU		BCGEU

Message from the Chief Executive Officer—Pension Corporation

The Pension Corporation serves the Public Service Pension Board of Trustees by performing key administration duties such as enrolling members, collecting and recording members' and employers' contributions, and calculating, processing and paying pension benefits. The corporation also provides secretariat, policy and communications support to the Board of Trustees and on its behalf deals with the Canada Customs and Revenue Agency and the Pension Benefit Standards Branch.

This year marked the completion of the second year of the Pension Corporation's three-year foundation building period. This is a period designed to position the corporation to be an industry leader in pension administration by focusing on developing a well-trained, service-oriented staff, improving the efficiency of our data management, and enhancing our options for web-based products.

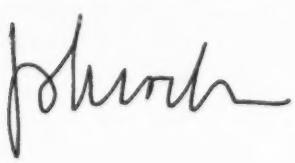
Over the past year I am pleased that we have been able to make considerable improvements in the timeliness and over-all quality of our responsiveness to members' service requests. Our client satisfaction surveys have confirmed that members recognize and appreciate the improvements in member services.

The simplification of purchase of service rules as well as Early Retirement Incentive Programs by several plan employers resulted in an increase in the number of member requests. We have eliminated a significant backlog of service purchase requests and expect to meet our service standards for newer requests by mid-fall.

Technology remains a key component in our business strategy. In 2003, the **pensionsbc.ca** website will offer improved navigation and enhanced web-based services, including a new online personalized pension estimator. Also, a new annual Members' Benefit Statement, designed to help members better understand the value of their pension benefits, will be distributed in the fall.

I would like to acknowledge the contribution of the corporation's employees in meeting the objectives of the Pension Corporation. I am proud of their accomplishments and I am confident they will continue to deliver what is needed to meet the service objectives of the plan's Board of Trustees.

This is my last year with the Pension Corporation and I look forward, after a long and satisfying career in public service, to my retirement. I would like to thank the members of the Board of Trustees for their encouragement, support and understanding during my term as Chief Executive Officer. I am confident that I leave the corporation in excellent hands.



John Mochrie
Chief Executive Officer
BC Pension Corporation

March 31, 2003

Message from the Chief Investment Officer—bcIMC

Public Service Pension Plan—2002/03

Market Review

The first three years of the 21st century are ones that investors, and their investment managers, would likely prefer to forget. The U.S. stock market had its third consecutive yearly decline, providing the worst returns in more than 70 years.

With the benefit of hindsight, it is obvious that the pendulum swung too far during the bull market of the 1990s. Fuelled by "irrational exuberance" and overly optimist earnings forecasts from companies and security analysts, investors were willing to pay exorbitant prices for shares in technology companies. With the bursting of the equity bubble, the pendulum appears to have swung too far in the other direction, with many investors becoming very pessimistic and risk averse. The only positives for long-term investors are that the correction has taken many of the excesses out of the market and shares of some well-performing companies can now be purchased at more reasonable prices.

An important factor underlying the current weakness of stock markets has been the erosion of confidence following the terrorist attack on September 11, and the collapse of Enron, WorldCom, and several other household names. Fraudulent accounting, lax auditing, and dereliction of duty by boards of directors and senior management have undermined the confidence of many investors in the integrity of financial markets and corporate leadership. This has also reinforced the importance of shareholders and institutional investors taking a more active role in the governance of corporations.

While equity markets were exceptionally weak in fiscal 2002/03, government bonds and real estate fared much better as investors looked to more conservative investments to protect their capital. Unfortunately, it is difficult if not impossible to anticipate shocks to the financial system such as September 11, the ensuing corporate scandals, or the war with Iraq. Therefore, we believe that it is important for pension fiduciaries to maintain a well-diversified investment portfolio and follow a disciplined approach to managing their plan's asset mix. In addition, if investors are overly pessimistic at present, future returns from stocks could be stronger than expected.

The corporate and geopolitical turbulence meant it was another disappointing year in terms of equity returns. In Canadian dollar terms, the S&P 500 index decreased 30.6% for the year and the TSX index (Canadian stocks) was down 17.6%. However, because of diversification, the Public Service Pension Plan fared better than the equity markets. Specifically, the Basic Account recorded a return of -8.9% for the year. This exceeded the plan's market benchmark, which declined 10.2% in 2002/03. However, outperforming the market provides little solace when equity markets are so weak and overall returns are negative.

The most important issue for pension plans is their long-term results and, on a 10-year basis, the annualized return of the Public Service Basic Account is still 7.2%. While recent equity returns have been disappointing, stocks will generate higher returns than bonds over the long-term. In addition, at prevailing interest rates, fixed income securities will not generate sufficient return to meet the plan's actuarial targets. Therefore, I continue to believe that the plan will benefit from holding a balanced portfolio and using a disciplined approach to managing the asset mix.

Organization Review

The British Columbia Investment Management Corporation (bcIMC) is an independent organization and is governed by a consortium of our clients. Our management board consists of seven directors, including a representative of the Public Service Pension Plan. However, in terms of investment activity, we are an agent of the Public Service Pension Plan and are directly accountable to the Public Service Pension Board of Trustees for their fund's performance. In fact, bcIMC sees itself as the plan's internal investment staff.

During 2002, bcIMC improved service to clients with an enhanced website at **www.bcimc.com**. This provides clients and plan members with easy and convenient access to information about the Corporation and our approach to managing trust funds.

A key focus for the Corporation over the past year has been improving corporate governance. In 2002, bcIMC revised its proxy voting guidelines and began voting proxies for all of our clients' U.S. equity holdings—just as we have been voting Canadian proxies for several years. This year we have started to vote our top 200 non-North American equity holdings, representing about 75% of all such holdings, by market weight. I believe that the events of the past year underline the importance of institutional investors exercising this key fiduciary responsibility.

On behalf of all the staff at bcIMC, I would like to say that we appreciate working with the Public Service Pension Board of Trustees in serving the members of the Public Service Pension Plan.

Doug Pearce
Chief Investment Officer/Chief Executive Officer
BC Investment Management Corporation

Financial and Operational Highlights

Every three years an independent actuary assesses the financial health of the plan. At the most recent actuarial valuation as at March 31, 2002, the plan had a surplus for basic pension benefits of $546 million.

The Public Service Pension Fund holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The portfolio decreased from $12.1 billion at March 31, 2002, to $10.9 billion at March 31, 2003. While investments during the past two years have been disappointing, pension plans have long investment time horizons and should focus on the longer term. The five-year annualized rate of return was 2.2%.

Active membership in the Public Service Pension Plan decreased by about 6% in 2003. There are about 53,000 active plan members and 27,000 retired members. The number of retired members grew 9% in 2003. The number of pensions granted in 2003 increased 149% over the number granted in 2002.

Investment Performance

	Performance Benchmarks	Actual March 31	
	2003	2003	2002
Market Value ($ Billions)		$10.9	$12.1
Market Value Rates of Return			
Basic Account			
Annual	(10.2)%	(8.9)%	3.7%
Five-year Average	1.9%	2.2%	8.5%
Inflation Account			
Annual	(8.7)%	(8.0)%	3.7%

Net Earned Rate of the Fund

Year	%
1999	11.5
2000	13.9
2001	10.4
2002	8.5
2003	**2.2**

* The net earned rate of the fund is the Basic Account five-year average.

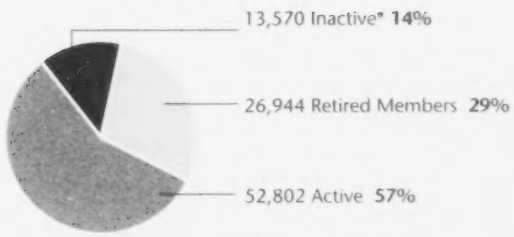
Latest Actuarial Valuation as at March 31, 2002
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded Liability)	
	2002	1999
For Funding Purposes*	$ 546	$ 929
Ratio of Surplus (Unfunded Liability) to Covered Payroll	23%	41%
For Accounting Purposes to March 31	$1,651	$1,086

* Assuming contributions continue at existing rates in effect at the valuation date. The next valuation will be as at March 31, 2005 with results included in the 2006 annual report.

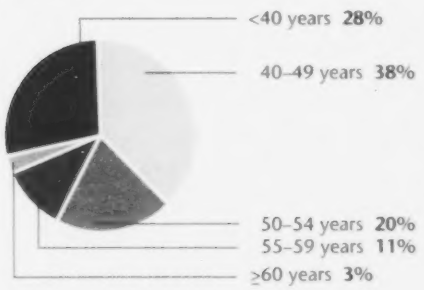
* See Note 7 and Note 8 to the Financial Statements for additional explanation.

2003 Membership Profile

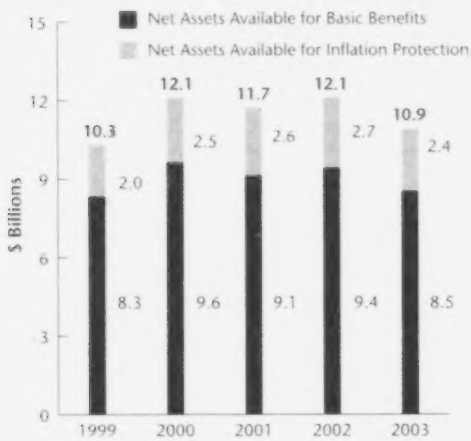


* Members no longer employed, but with money in the plan.

2003 Age Profile of Active Members



Net Assets Available for Benefits as at March 31, 1999–2003



Five-year Summary Statement of Changes in Net Assets Available for Benefits (Unaudited)

$ Thousands

For the year ended March 31	2003	2002	2001	2000	1999
(Decrease) Increase in Assets					
Net Investment Income					
Total Investment (Loss) Income	(1,035,429)	447,619	(311,161)	1,902,509	296,511
Investment Management Costs	(17,329)	(17,356)	(16,238)	(12,475)	(11,082)
	(1,052,758)	**430,263**	**(327,399)**	**1,890,034**	**285,429**
Contributions					
Members'	147,465	150,888	140,960	137,041	142,225
Employers'	190,320	182,297	126,929	96,420	193,632
Transfers from Other Plans	18,235	32,377	9,294	4,688	3,729
Total (Decrease) Increase in Assets	**(696,738)**	**795,825**	**(50,216)**	**2,128,183**	**625,015**
Decrease in Assets					
Pension Benefits	365,429	316,770	295,545	276,743	266,864
Termination Benefits	31,607	21,927	22,952	18,411	24,562
Transfers to Other Plans	44,806	20,370	13,810	5,080	530
Retired Member Group Benefits	46,660	33,216	8,636	8,468	8,033
Administration Costs	9,305	7,915	6,496	6,717	7,890
Total Decrease in Assets	**497,807**	**400,198**	**347,439**	**315,419**	**307,879**
(Decrease) Increase in Net Assets	(1,194,545)	395,627	(397,655)	1,812,764	317,136
Net Assets Available for Benefits at Beginning of Year	12,115,805	11,720,178	12,117,833	10,305,069	9,987,933
Net Assets Available for Benefits at End of Year	$10,921,260	$ 12,115,805	$11,720,178	$12,117,833	$10,305,069
			As a Percentage of Net Assets		
Benefit Administration Costs	0.09	0.07	0.06	0.06	0.08
Investment Management Costs	0.16	0.14	0.14	0.10	0.11

Plan Governance

The Public Service Pension Plan became a jointly trusteed pension plan on January 1, 2001 under a joint trust agreement between the provincial government, the BC Government and Service Employees' Union, the Professional Employees Association and the Union of Psychiatric Nurses. Pursuant to the joint trust agreement, the partners and key stakeholders are responsible for appointing the trustees. The partners are responsible for directing amendments to the plan, if certain conditions are met, and resolving trustee disputes.

The **Public Service Pension Board of Trustees** is fully responsible for the management of the pension plan, including the administration and investment of the assets. The board of trustees may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost neutral to the plan. Plan rule changes that result in contribution rate changes must be approved by the partners. If the actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The **British Columbia Pension Corporation** provides benefit administration services as an agent of the board of trustees.

The **British Columbia Investment Management Corporation** provides investment management services as an agent of the board of trustees.

Communications

Communicating with plan members is a priority of the Public Service Pension Board of Trustees. We continue to work on new communications materials to ensure all plan information is easily understood, accurate and up-to-date. Plan member newsletters, bulletins and Pensionfacts—a series of fact sheets—are regularly published. Additional information about the plan is available online at **pensionsbc.ca**.

A key initiative is the redesign of the website. When completed, it will offer a cleaner, easier interface, while allowing enhanced self-service options for plan members.

Investments

One of the major roles of the board of trustees as fiduciary for the plan, is the responsibility for overseeing the investment of approximately $11 billion in assets for the long-term benefit of the plan and its members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision-making.

The board of trustees approves the long-term asset mix policy for the investment assets and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in the approved asset policy. Investments are held in a range of asset types (bonds, equities, real estate, etc.), industry sectors, and global markets.

Despite some good news in 2002–2003—returns for the plan on government bonds and real estate/mortgage were strong—equity markets provided disappointing results for a second year. The Toronto Stock Exchange Index (Canadian stocks) was down 17.6% in 2002–2003, and in Canadian dollar terms, the Standard & Poor's 500 Index (U.S. stocks) decreased 30.6%. These trends are reflected in the returns on the equity investments of the pension fund.

Overall for the year, the plan's Basic Account recorded a -8.9% annual return on its investment portfolio, modestly outperforming its benchmark based on market indices of -10.2%. On a five-year basis, the return for the plan's Basic Account was 2.2%.

In the short term, market expectations remain uncertain. While investment returns during the past two years have been disappointing, the board is confident that performance will improve over the long term. The board will continue in their approach to optimize returns based on following sound money management principles and strategic asset allocation.

Approved Basic Investment Asset Mix

Strategic and short-term asset allocation targets are set within the ranges in the Approved Basic Account Investment Asset Mix table below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

Approved Basic Account Investment Asset Mix

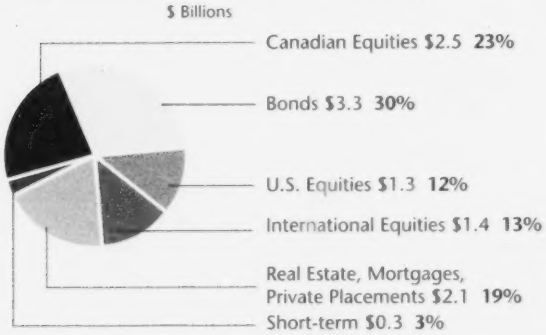
	Market Value	
Asset Class	**Lower Limit (%)**	**Upper Limit (%)**
Debt	**25**	**45**
Short-term	0	10
Bonds	15	30
Mortgages	0	10
Equity	**55**	**75**
Canadian Equities	15	30
U.S. Equities	5	20
International Equities	10	25
Real Estate	5	12
Private Placements	0	6

Investment Portfolio

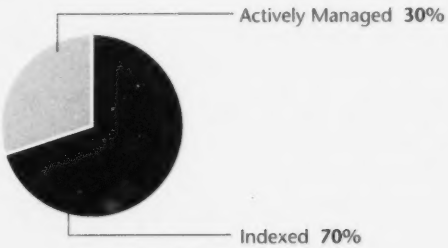
Investments Held as at March 31, 2003

	Market Value ($ Thousands)	Asset Mix Market Value (%)
Money Market	84,272	1
Canadian Bonds		
Government	1,921,210	18
Corporate	512,700	5
Long-term	445,173	3
Short-term (to 5 years)	166,394	2
Canadian Equities		
Indexed	1,713,819	16
Actively Managed	765,878	7
U.S. Equities		
Indexed	939,421	9
Actively Managed	385,595	3
International Equities		
Asia	248,509	2
Europe	417,260	4
Europe, Australia and the Far East	715,765	7
Foreign Exchange	2,067	0
Real Estate	1,189,135	11
Mortgages	469,682	4
Private Placements	426,263	4
Total Pooled Portfolios	**$10,403,143**	**96%**
Canadian Real Return Bonds	463,718	4
Total Investments	**$10,866,861**	**100%**
2002 Comparison	$12,105,142	

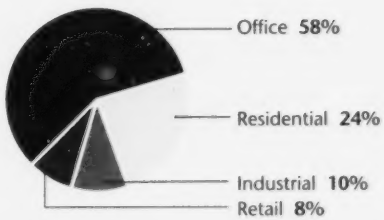
2003 Investment Holdings (Market Value)



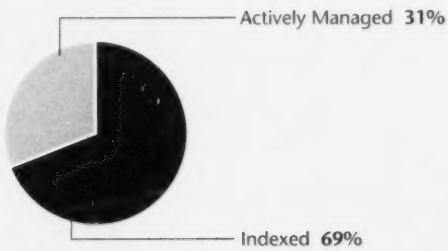
Canadian Equities (Market Value)



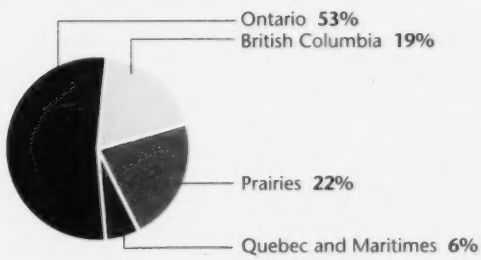
Real Estate, by Type



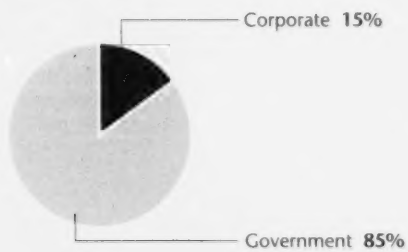
U.S. Equities (Market Value)



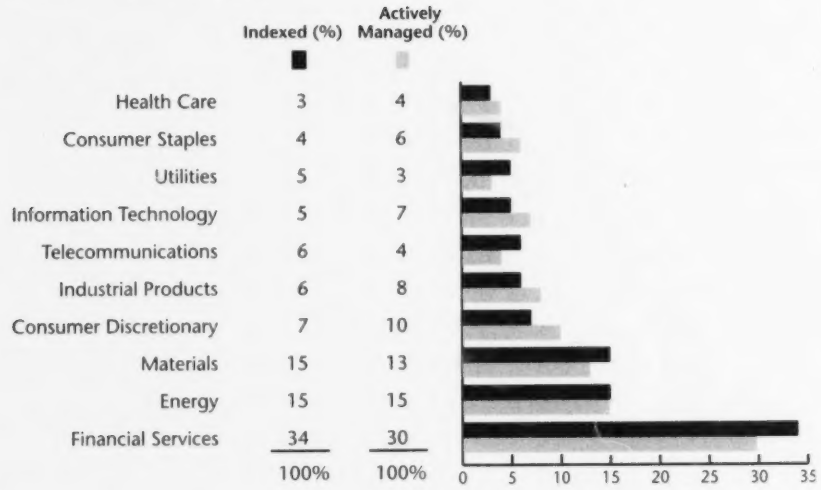
Real Estate, by Location



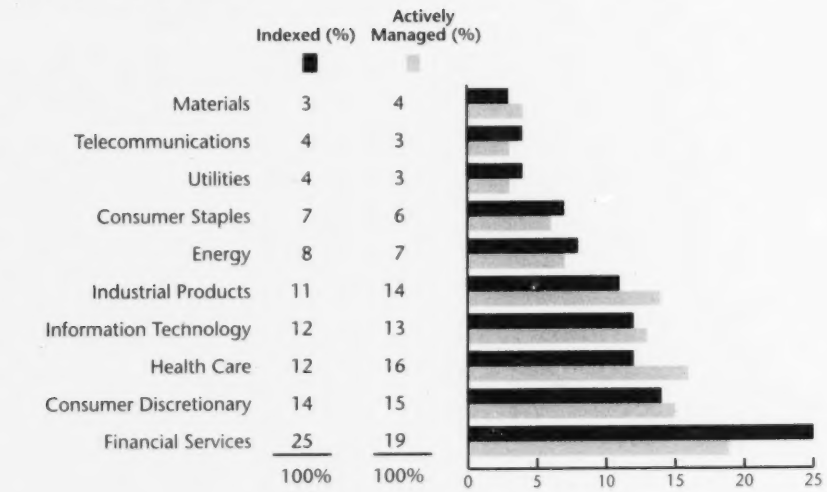
Bonds (Market Value)



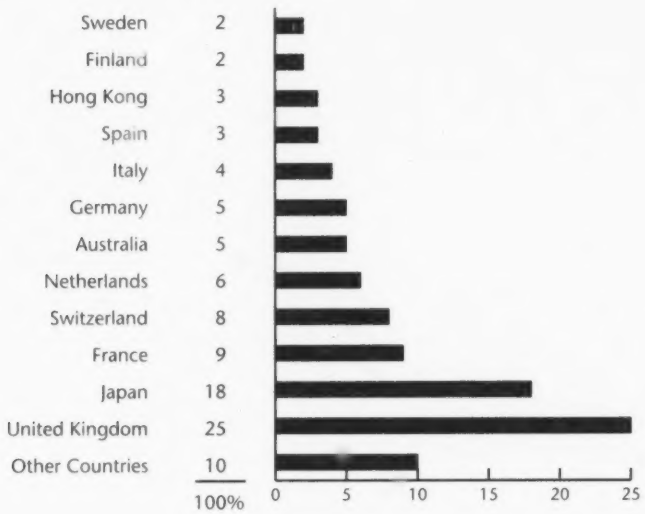
Canadian Equities, by Sector



U.S. Equities, by Sector



International Equities (%)



Canadian Equities
Top 10 Holdings

Company	Market Value ($ Thousands)	% of Total
Royal Bank of Canada	$ 134,977	5.4%
Bank of Nova Scotia	111,720	4.5%
Encana Corporation	93,398	3.8%
Toronto Dominion Bank	87,805	3.5%
BCE Inc.	87,050	3.5%
Canadian Imperial Bank of Commerce	73,787	3.0%
Bank of Montreal	71,609	2.9%
Manulife Financial	68,087	2.8%
Alcan Inc	57,269	2.3%
Sun Life Financial	54,793	2.2%
Total Top Ten	**$ 840,495**	**33.9%**
Total Canadian Equities	**$2,479,697**	

U.S. Equities
Top 10 Holdings

Company	Market Value (C$ Thousands)	% of Total
Exxon Mobil Corp	$ 36,698	2.8%
Citigroup Inc	33,321	2.5%
Microsoft Corp	26,681	2.0%
General Electric	23,266	1.8%
Amern Intl Group	22,399	1.6%
Pfizer Inc	22,177	1.7%
Wal Mart Stores	20,420	1.5%
Bank of America	19,466	1.5%
Johnson & Johnson	17,451	1.3%
Comcast Corp	13,920	1.1%
Total Top Ten	**$ 235,799**	**17.8%**
Total U.S. Equities	**$ 1,325,016**	

International Equities
Top 10 Holdings

Company	Market Value (C$ Thousands)	% of Total
Vodafone Group	$ 37,265	2.7%
BP	29,970	2.2%
Novartis AC	28,256	2.0%
Glaxosmithkline	26,105	1.9%
Total Fina Elf	26,086	1.9%
Nestle SA	22,844	1.6%
Nokia OYJ	20,798	1.5%
HSBC Holdings	20,636	1.5%
Royal Bank Scot GR	20,415	1.5%
ENI	18,271	1.3%
Total Top Ten	**$ 250,646**	**18.1%**
Total International Equities	**$ 1,381,534**	

Investment Performance

Net Earned Rate of the Fund

Year	%
1999	11.5
2000	13.9
2001	10.4
2002	8.5
2003	**2.2**

Rates of return are based on a five-year average.

Market Value Rates of Return for the Year Ended March 31, 2003

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks (%)	
Five-year Average Rates				
2003	**2.2**	**2.5**	**1.9**	
2002 Comparison	8.5	8.4	8.6	
Annual Rates				
2003	**-8.9**	**-8.0**	**-10.2**	
2002 Comparison	3.7	3.7	4.0	
2003 Annual Rates by Investment Category				**2003 Performance Benchmark Indices**
Short-term				
Money Market	2.7	2.8	2.7	SCI 91-Day Treasury Bills
Bonds	6.8	6.8	6.9	SCI All Gov't Short-term
Bonds				
Government	9.5	9.5	9.5	SCI All Government
Corporate	9.0	9.0	8.2	SCI All Corporate Universe
Long-term	12.3	12.3	12.1	SCI All Government Long-term
Real Return	19.5	19.5	20.0	SCI Real Bond
Canadian Equities				
Actively Managed	-16.3	-16.3	-17.6	S&P/TSX
Indexed	-17.0	-17.0	-17.6	Active Canadian Benchmark
U.S. Equities				
Actively Managed	-30.9	-30.9	-30.4	R 1000
Indexed	-30.6	-30.6	-30.6	S&P 500
Value	-31.1	-31.1	-31.9	S&P 500 Value
Enhanced	-30.5	-30.5	-30.4	R 1000
International Equities				
Asia	-24.5	-24.5	-22.4	MSCI Pacific Net
Europe	-32.5	-32.5	-31.3	MSCI Europe Net
Europe, Australia and the Far East	-28.6	-28.6	-28.9	MSCI Europe, Australia, Far East Net
Real Estate	5.9	5.9	8.3	CPI + 4%
Mortgages				
Fixed-term	9.7	9.7	8.0	SCI Short-term Bonds + 1%
Construction	6.0	6.0	4.6	SCI One-year Bill + 1%
Specialty	9.2	9.2	6.2	SCI One-year Bill + 2.5%

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
SCI	=	Scotia Capital Inc.
S&P	=	Standard & Poor's
MSCI	=	Morgan Stanley Capital International
R	=	Russell
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange Composite

(Source of annual rates: British Columbia Investment Management Corporation)

Actuarial Valuation/Plan Funding

The Public Service Pension Plan is financially sound. At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the plan. The actuarial valuation as at March 31, 2002 indicated a funding surplus for basic pension benefits of $546 million. The joint trust agreement specifies how surplus assets can be used. The next valuation will be as at March 31, 2005.

An unfunded liability indicates that there is a shortfall between the benefits that are promised and the assets that are available to pay for these benefits, whereas a surplus indicates all basic benefits are funded.

Latest Actuarial Valuation as at March 31, 2002

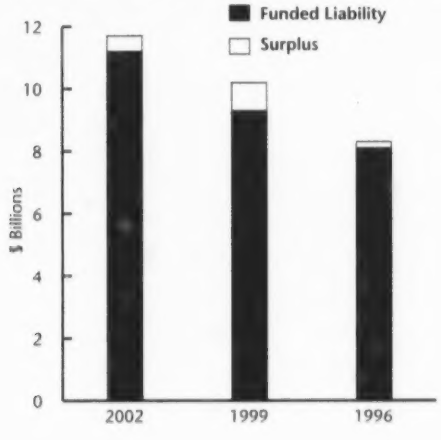
$ Millions

	Basic Pension Benefits Net Surplus (Unfunded)		
	2002	1999	1996
For Funding Purposes*	$ 546	$ 929	$222
Ratio of Surplus (Unfunded Liability) to Covered Payroll	23%	41%	10%
For Accounting Purposes to March 31	$1,651	$1,086	$209

* Assuming contributions continue at existing rates, in effect at the valuation date. The next valuation will be as at March 31, 2005 with results included in the 2006 annual report.

* See Note 7 and Note 8 to the Financial Statements for additional explanation.

Funding of the Total Basic Benefit Liability



Plan Benefits

Plan benefits are defined by the pension plan rules made under the authority of the Joint Trust Agreement. The following is a general description of plan benefit rules.

Your basic pension benefit is defined, meaning your pension is based on how many pensionable years you were an active member, the average of your five highest years of salary (not necessarily your last five years) and your age at retirement. Your pension is not based on how much you contributed to the plan, nor is it based on the investment performance of the plan's assets. The advantage of a defined benefit plan is that your pension is predictable and is not based entirely on economic conditions during your working lifetime nor at the time of your retirement. The plan provides entitlement to a pension benefit after two years of enrolment. The plan also provides survivor and disability benefits. Benefits such as inflation protection to the basic pension and group health benefits, are not guaranteed. The board monitors the ability to continue to provide these benefits on an ongoing basis.

The number of retired members increased 9% in 2003. The number of pensions granted in 2003 increased 149% over the number granted in 2002.

Pension Benefits

All members with two years contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups); or
- at age 60, with at least two years of contributory service (age 55 for certain groups); or
- at age 55 or older, where age plus years of service equals 85 or more; or
- at age 50 or older, where age plus years of service equals 85 or more for certain groups.

Other retiring members have a reduction formula applied to their pensions.

The basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.35% (1.3% for members who terminated prior to March 1, 2002) of pensionable earnings up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

Pensionable earnings are based on the member's five-year highest average salary (HAS). The plan also provides a bridge benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.65% (0.7% for members who terminated prior to March 1, 2002) of the lesser of YMPE or the HAS. Certain limited groups of members (e.g., provincial court judges, masters of the Supreme Court, deputy ministers and officers of the Legislature) receive different benefits.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2003, retired members received a full CPI increase of 2.3% (2002—2.6%).

Pensions are paid at the end of each month, beginning with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible, or
- the month following the month in which the plan member receives the final salary, or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the month in which the retired member dies.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary, and years of service at retirement.

The table below shows the average asset value ('present value') of pensions granted during 2003. The value represents approximately how much it would cost to purchase an average basic pension provided under the Public Service Pension Plan.

Average Values of Regular Pensions Granted April 1, 2002 to March 31, 2003
Subdivided by years of service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
<10 years	140	46,000	4,000	67,000	9.4
10–14	299	44,000	8,000	111,000	33.2
15–19	233	47,000	12,000	171,000	39.8
20–24	471	49,000	16,000	239,000	112.6
25–29	616	52,000	20,000	323,000	199.0
30–34	413	54,000	26,000	415,000	171.4
≥35 years	172	57,000	29,000	460,000	79.1
Total	**2,344**	**n/a**	**n/a**	**n/a**	**$644.5**
All Pension Average	n/a	$50,000	$17,000	$275,000	n/a

* Years of service includes service transferred from other plans.

Pensions 1994–2003

	Public Service			MLA					
	Granted during Year	Pension Terminations	In Force at End of Year	Granted during Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ Millions)	Inflation Supplements Paid ($ Millions)	Total ($ Millions)
1994	740	273	18,148	2	3	96	146.3	48.9	195.2
1995	880	343	18,685	1	–	97	152.0	50.1	202.1
1996	1,088	382	19,391	–	1	96	160.7	50.2	210.9
1997	1,321	415	20,297	12	2	106	173.0	52.8	225.8
1998	2,178	414	22,061	–	3	103	203.1	54.2	257.3
1999	981	447	22,595	1	2	102	211.3	55.6	266.9
2000	1,066	505	23,156	2	2	102	220.2	56.6	276.8
2001	1,264	454	23,966	1	1	102	234.4	61.1	295.5
2002	1,149	500	24,615	26	2	126	250.7	66.1	316.8
2003	**2,865**	**536**	**26,944**	**–**	**3**	**123**	**294.3**	**71.1**	**365.4**

Transfers from the Members of the Legislative Assembly Superannuation Account, 1994–2003

$ Thousands

	Present Value of Pensions Transferred	Inflation Adjustment Contributions Transferred
1994	605	98
1995	246	114
1996	–	103
1997	4,687	43
1998	–	25
1999	188	60
2000	559	56
2001	222	42
2002	12,964	9
2003	**–**	**1**

When a Member of the Legislative Assembly receives a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Public Service Pension Fund, which pays the monthly benefit.

Pensions Granted, by Type 1994–2003

	Regular*	Death*	Disability+	Deferred	Total
1994	574	27	66	73	740
1995	684	27	83	86	880
1996	862	28	98	100	1,088
1997	1,049	27	172	73	1,321
1998	1,741	21	293	123	2,178
1999	729	40	77	135	981
2000	808	43	86	129	1,066
2001	1,017	45	106	96	1,264
2002	877	38	116	118	1,149
2003	**2,344**	**46**	**317**	**158**	**2,865**

* Pensions granted do not include any pension continued to a beneficiary upon the death of a retired member.

\+ Includes members on long-term disability who became eligible for a regular pension.

2003 Regular Pensions Granted by Age at Retirement
Normal Retirement, Age 60

Subdivided by years of service and age at retirement

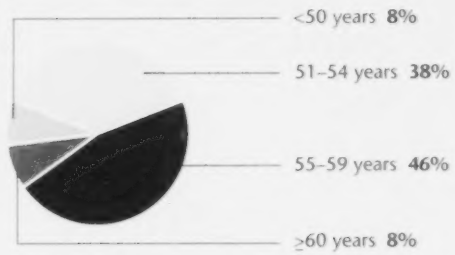
Years of Service	50	51–54	55–59	60	Total
<10 years	–	5	1	–	6
10–14	3	4	8	–	15
15–19	2	3	8	–	13
20–24	2	6	13	3	24
25–29	3	21	13	6	43
30–34	–	7	11	1	19
≥35 years	–	–	1	–	1
Total	**10**	**46**	**55**	**10**	**121**

2003 Regular Pensions Granted by Age at Retirement
Normal Retirement, Age 65

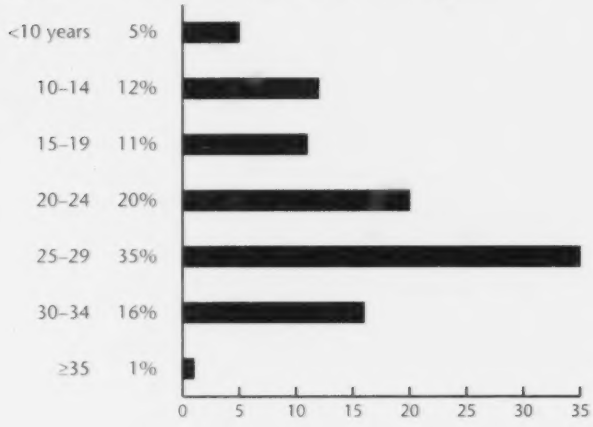
Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	65	Total
<10 years	17	35	65	17	134
10–14	47	86	116	35	284
15–19	38	77	86	19	220
20–24	81	178	167	21	447
25–29	145	264	150	14	573
30–34	148	177	59	10	394
≥35 years	69	65	34	3	171
Total	**545**	**882**	**677**	**119**	**2,223**

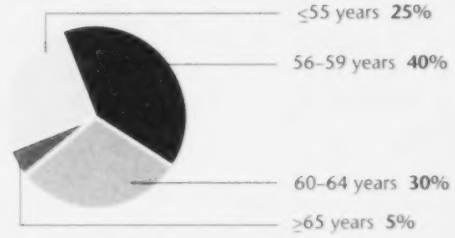
Percentage of 2003 Regular Pensions Granted by Age – Normal Retirement Age 60



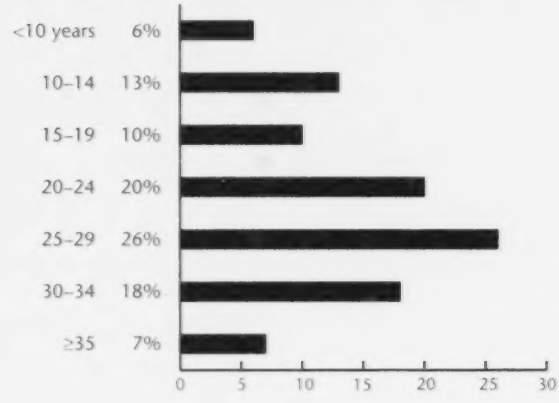
Percentage of 2003 Regular Pensions Granted by Years of Service – Normal Retirement Age 60



Percentage of 2003 Regular Pensions Granted by Age – Normal Retirement Age 65



Percentage of 2003 Regular Pensions Granted by Years of Service – Normal Retirement Age 65



Termination Benefits

A terminating member who is not eligible for a pension benefit may receive a refund of contributions with interest. A terminating member who is eligible for a pension, but has not yet reached the earliest retirement age, may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or a similar tax-sheltered plan.

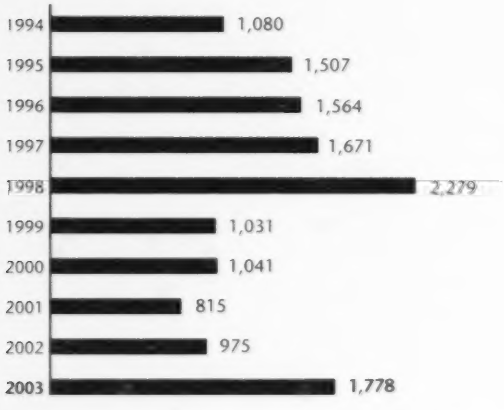
A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

The number and value of termination benefits paid can vary from year to year, depending on the employment environment, the type of termination benefit paid and the plan member's entitlement. In 2003, the number of termination benefits paid increased significantly compared to 2002.

If a member leaves the plan, and is eligible for a refund of contributions, the refund includes interest. Interest compounds semi-annually and is credited to the member's contribution balance. The balance, including interest, is included in the annual Member's Benefit Statement.

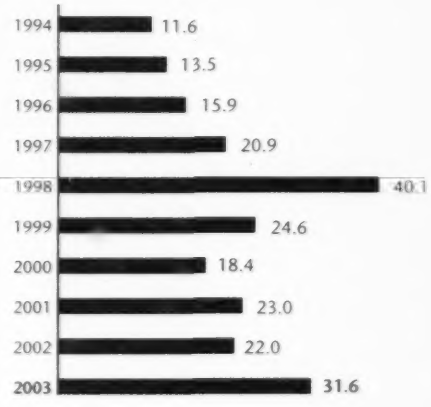
The rate of interest is governed by pension standards and pension plan legislation and is based on average five-year bank personal term deposit rates.

Number of Termination Benefits Paid



Value of Termination Benefits Paid

$ Millions



Termination benefits paid include only refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

Annual Rates for Interest Credited to Contribution Balances

Year	September (%)	March (%)
1998/99	4.33	4.10
1999/00	4.54	5.34
2000/01	5.28	4.78
2001/02	4.05	3.45
2002/03*	–	**3.74**

* Effective 2002, interest is credited annually.

Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Public Service Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Public Service Pension Plan. Employers who allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers".

Members of the Public Service Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 2003, there were 445 reciprocal transfers in from other pension plans and 599 transfers out. The transfers-in totaled $18.2 million; transfers-out totaled $44.8 million. Transfers include transfers between the Public Service Pension Plan and three other B.C. public sector plans (College, Municipal and Teachers') and other plans that have signed transfer agreements.

Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

- leaves of absence (maternity, parental, or other leave)
- arrears contributions (not enrolled but eligible to buy back missed contributions)
- other service (employment service before becoming a regular contributor), or
- reinstatements (contributions previously refunded from the plan).

The number of purchases of additional service increased 56% from 2002, and the value increased 15%.

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases $ Thousands	
	2003	2002	**2003**	2002
Leaves of Absence	**622**	245	**1,715**	891
Arrears Contributions	**58**	48	**464**	513
Other Service	**2,340**	1,464	**12,809**	9,840
Reinstatements	**314**	377	**4,271**	5,562
Total	**3,334**	2,134	**19,259**	16,806

Plan Participants

Membership in the Public Service Pension Plan is open to all eligible employees of the provincial public service or other employers approved by the Public Service Pension Board of Trustees. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

There are three categories of members in the Public Service Pension Plan:

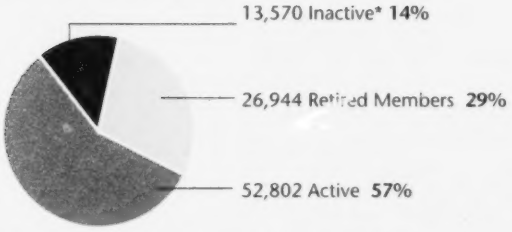
- Active—those currently contributing, or on a leave of absence, or receiving benefits from an approved salary continuance plan.
- Inactive—those who have terminated their employment with contributions deposited in the plan. They may or may not be eligible for a pension in the future. Those who are eligible are known as vested and deferred members. Even if an inactive member is not entitled to a Public Service Pension Plan benefit, they may be eligible for a pension as a result of combining their entitlement in other pension plans covered by the Interplan Pension Transfer Agreement.
- Retired—those who are receiving a pension.

The number of active plan members in the Public Service Pension Plan decreased by about 6% in 2003. Today there are approximately 53,000 active plan members and about 27,000 retired members.

Number of Members

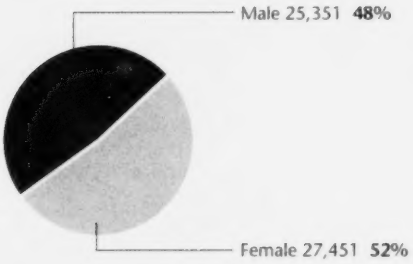
	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
1999	56,128	4,425	5,196	22,595	88,344
2000	56,487	3,561	5,823	23,156	89,027
2001	58,572	3,758	6,748	23,966	93,044
2002	56,342	4,094	7,961	24,615	93,012
2003	**52,802**	**4,495**	**9,075**	**26,944**	**93,316**

2003 Membership Profile

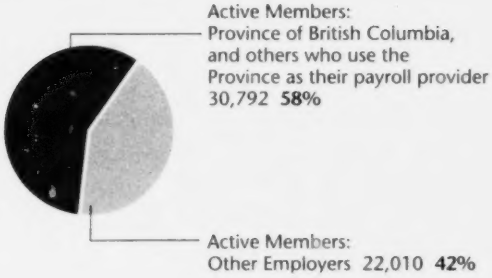


* Members no longer employed, but with money in the plan.

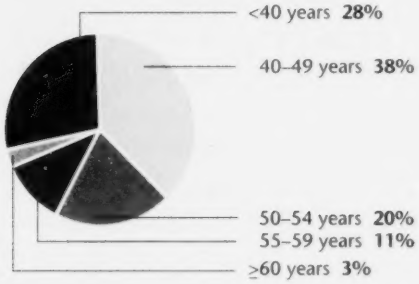
2003 Active Member Profile



Active Member Employment as at March 31, 2003

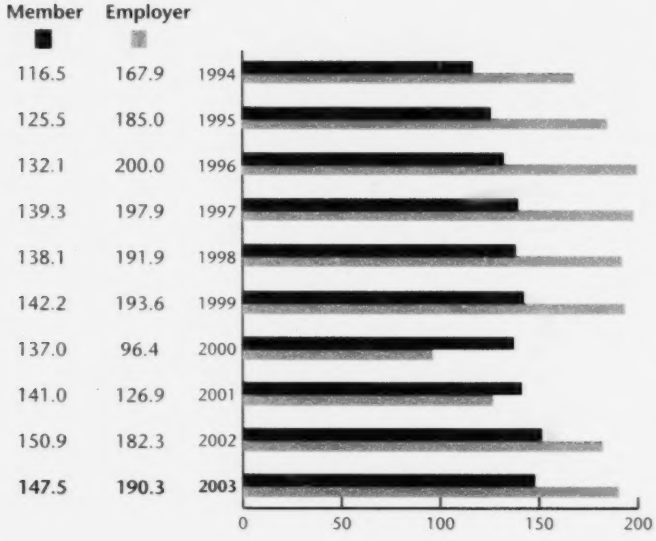


2003 Age Profile of Active Members



Contributions

$ Millions



Members of the Public Service Pension Plan are primarily employees of the British Columbia provincial government and certain Crown corporations, agencies and institutions. Once an employee qualifies to join the plan or elects to contribute, contributions must continue as long as the employee remains with the employer, or until 35 years of pensionable service have accumulated.

Public Service Pension Plan Active Employers

Province of British Columbia
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Centre for Disease Control
British Columbia Excluded Employees' Association
British Columbia Ferry Services Inc.
BC Ferry and Marine Workers' Union
British Columbia Government and Service Employees' Union
British Columbia Housing Management Commission
British Columbia Investment Management Corporation
British Columbia Institute of Technology
British Columbia Mental Health Society
BC Pavilion Corporation
British Columbia Pension Corporation
British Columbia Securities Commission
British Columbia Transit
British Columbia Treaty Commission
British Columbia Utilities Commission
Canada/British Columbia Business Services Society
Coast Capital Savings
Coast Mountain Bus Company
Columbia Power Corporation
Emergency Health Services Commission
Forensic Psychiatric Services Commission
Fraser Marine Transportation Ltd.
First Peoples' Heritage, Language and Culture Council
Greater Vancouver Transportation Authority
Homeowner Protection Office
Insurance Corporation of British Columbia
Islands Trust
Liquor Distribution Branch
Oak Bay Lodge Society
Office and Professional Employees' International Union, Local 378
Office of Auditor General
Office of Children & Youth
Office of Chief Electoral Officer
Office of Conflict of Interest Commissioner
Office of Freedom of Information and Privacy Commissioner
Office of Ombudsman
Office of Police Complaint Commissioner
Pacific Vehicle Testing Technologies Ltd.
Professional Employees Association
Provincial Agricultural Land Commission
Provincial Capital Commission
Regional Health Authorities (5 – Fraser, Interior, Northern, Vancouver Coastal, Vancouver Island)
Science Council of British Columbia
St. Paul's Hospital
Tillicum and Veterans Care Society (Broadmead Lodge)
Tourism British Columbia
Union of Psychiatric Nurses

PENSION CORPORATION

Executive Offices

Mailing Address:
PO Box 9460
Stn Prov Govt
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250-387-8201
1-800-663-8823
Fax:
250-387-4199

PUBLIC SERVICE PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Service Pension Plan were prepared by the British Columbia Pension Corporation, the administrative agent for the board of trustees for the pension plan. The board of trustees is responsible for having annual financial statements prepared in accordance with generally accepted accounting principles. The Corporation prepares the financial statements on the board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the pension plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan by the board of trustees. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the plan by the board of trustees. The role of the auditor is to perform an independent audit of the financial statements of the pension plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.

P. LOUISE YOUNG, C.A.,
Vice President, Corporate Services
British Columbia Pension Corporation

SANDRA LENZ, C.A.,
Director of Finance
British Columbia Pension Corporation

July 18, 2003

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

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Telefax (250) 480-3539
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Public Service Pension Plan

We have audited the statement of net assets available for benefits of the Public Service Pension Plan as at March 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at March 31, 2003 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada
July 25, 2003

KPMG LLP, a Canadian limited liability partnership is the Canadian member of KPMG International, a Swiss nonoperating association

PUBLIC SERVICE PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

March 31	2003	2002
ASSETS		
Investments (Note 3)	$ 10,866,861	$ 12,105,142
Receivables		
Members' contributions	1,832	4,894
Employers' contributions	7,152	10,257
Accrued investment income	5,446	5,163
Due from MLA Superannuation Account	-	3,420
Due from sale of investments	61,135	77,469
Other	2	44
	75,567	101,247
Prepaid expenses	3,435	315
Cash	1,601	451
Total Assets	10,947,464	12,207,155
LIABILITIES		
Payable for purchase of investments	9,451	79,327
Accounts payable and accrued expenses	16,753	12,023
Total Liabilities	26,204	91,350
NET ASSETS AVAILABLE FOR BENEFITS	$ 10,921,260	$ 12,115,805

Obligations for Pension Benefits for Funding Purposes (Note 7)
Obligations for Pension Benefits for Accounting Purposes (Note 8)
Commitments (Note 11)

All accompanying notes are an integral part of these financial statements.

John W. Cook, F.C.I.A.
Chair and Trustee
Public Service Pension Board of Trustees

Ron McEachern
Trustee
Public Service Pension Board of Trustees

Diane Wood
Trustee
Public Service Pension Board of Trustees

PUBLIC SERVICE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended March 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2003	2002
(DECREASE) INCREASE IN ASSETS					
Net investment (loss) income (Note 4)	$ (835,467)	$ (217,291)	$ -	$ (1,052,758)	$ 430,263
Contributions (Note 5)					
Employers'					
Province of British Columbia	82,533	6,943	29,643	119,119	119,922
Other	46,632	6,535	18,034	71,201	62,375
	129,165	13,478	47,677	190,320	182,297
Members'	115,781	31,268	416	147,465	150,888
	244,946	44,746	48,093	337,785	333,185
Transfers from other plans	13,577	4,658	-	18,235	19,404
Transfers from MLA Superannuation Account (Note 9)	-	-	-	-	12,973
Total (Decrease) Increase in Assets	(576,944)	(167,887)	48,093	(696,738)	795,825
DECREASE IN ASSETS					
Pension benefits					
Contributory	293,061	-	1,304	294,365	250,706
Indexing supplements	71,064	-	-	71,064	66,064
	364,125	-	1,304	365,429	316,770
Termination benefits	21,207	10,385	15	31,607	21,927
Transfers to other plans	32,372	12,434	-	44,806	20,370
Retired member group benefits (Note 10)	-	-	46,660	46,660	33,216
Administration costs (Note 9)	9,191	-	114	9,305	7,915
Total Decrease in Assets	426,895	22,819	48,093	497,807	400,198
(DECREASE) INCREASE IN NET ASSETS BEFORE TRANSFERS	(1,003,839)	(190,706)	-	(1,194,545)	395,627
Account transfers (Note 6)	71,623	(71,623)	-	-	-
(DECREASE) INCREASE IN NET ASSETS	(932,216)	(262,329)	-	(1,194,545)	395,627
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	9,394,041	2,721,764	-	12,115,805	11,720,178
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 8,461,825	$ 2,459,435	$ -	$ 10,921,260	$ 12,115,805

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN

Effective January 1, 2001 the Public Service Pension Plan Joint Trust Agreement (the agreement) was implemented and now governs the plan. The ongoing partners to the agreement are the provincial government and the B.C. Government and Service Employees' Union. The agreement describes the composition, appointment, powers, functions and duties of the Public Service Pension Board of Trustees (the board) and provides authority for the board to make pension plan rules.

a) General

The plan is a contributory defined benefit pension plan open to eligible employees of the provincial government and certain crown corporations, agencies, institutions and other employers approved by the board.

b) Roles and Responsibilities

The Board of Trustees
The partners are responsible for directing amendments to the plan, if certain conditions are met, and resolving trustee disputes. The Public Service Pension Board of Trustees consists of up to fifteen members. The partners and key stakeholders appoint fourteen members representing plan members and plan employers. The other trustees appoint the fifteenth member, the chair. The board is fully responsible for the management of the pension plan, including investment of the assets and administration of the pension plan. The board may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost neutral to the plan. Unless required to ensure compliance with regulatory enactments applicable to the pension plan, plan changes that result in contribution rate changes can only be initiated by the partners.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation is the provider of benefit administrative services to the pension plan. The Pension Corporation is answerable to the board for benefit administration service levels.

British Columbia Investment Management Corporation (bcIMC)
The bcIMC is answerable to the board for providing investment management services within investment policies approved by the trustees.

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

1. DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (CONTINUED)

c) Contributions

Basic Account
Members contribute to the Basic Account 4.25% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($39,900 in 2003) and 5.75% of salary above that.

Employer contributions to the Basic Account match those for plan members except for certain limited groups (e.g. correctional centre employees, ambulance employees, provincial court judges, masters of the supreme court, and some deputy ministers and officers of the Legislature) where employers pay a higher rate to compensate for the additional cost of their benefits (see Notes 5 and 10).

Inflation Adjustment Account and Supplemental Benefits Account
Members contribute 1.25% of salaries to the Inflation Adjustment Account (IAA). Employers contribute 2.25% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (see Note 10).

d) Pension Benefits

All members with two years contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, where age plus years of service equals 85 or more or
- at age 50 or older, where age plus years of service equals 85 or more for certain groups.

Other retiring members have a reduction formula applied to their pensions.

The basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.35% (1.3% for members who terminated prior to March 1, 2002) of pensionable earnings up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

1 DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (CONTINUED)

d) Pension Benefits (continued)

Pensionable earnings are based on the member's five-year highest average salary (HAS). The plan also provides a bridge benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.65% (0.7% for members who terminated prior to March 1, 2002) of the lesser of YMPE or the HAS. Certain limited groups of members (eg. provincial court judges, masters of the supreme court, and some deputy ministers and officers of the Legislature) receive different benefits.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6 and 7b).

At January 1, 2003, retired members received a full CPI increase of 2.3% (2002 – 2.6%).

e) Termination and Portability Benefits

A terminating member who is not eligible for a pension benefit may receive a refund of contributions with interest. A terminating member who is eligible but has not yet reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the members' contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

Where there are portability arrangements between the plan and other plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

1 DESCRIPTION OF THE PUBLIC SERVICE PENSION PLAN (CONTINUED)

g) Income Taxes

The plan is a Registered Pension Plan (RPP), as defined in the *Income Tax Act* (Canada), except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The RPP is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the pension plan as a separate financial reporting entity, independent of the plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the plan, and does not purport to show their adequacy to meet the obligations of the plan.

b) Investments

Investments are stated at market value. Market value is derived from external quotations, appraisals or independent valuations. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the actuarial estimate of the actuarial position of the Basic Account.

3. INVESTMENTS (MARKET VALUE)

	2003			2002
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 72,207	$ 12,065	$ 84,272	$ 201,769
Canadian Bonds	2,698,650	810,545	3,509,195	3,668,020
Canadian Equities	2,344,916	668,282	3,013,198	3,261,773
U.S. Equities	599,799	191,716	791,515	1,028,076
International Equities	1,025,957	355,577	1,381,534	1,919,484
Foreign Currency	1,608	459	2,067	-
Mortgages	362,617	107,065	469,682	443,431
Real Estate	916,399	272,736	1,189,135	1,175,635
Private Placements	402,345	23,918	426,263	406,954
	$8,424,498	$2,442,363	$10,866,861	$12,105,142

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares and, in the case of international equities, refer to investments in Europe, Australia and the Far East. The foreign currency pooled fund engages in the buying and selling of foreign curreny financial instruments to enhance returns through the active management of currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC real estate investment managers and, on average, annually by external appraisals to establish current market values. Private placements are valued annually.

4. INVESTMENT (LOSS) INCOME

	2003			2002
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 5,106	$ (689)	$ 4,417	$(197,892)
Canadian Bonds	156,327	102,324	258,651	138,621
Canadian Equities	42,912	(537,045)	(494,133)	383,346
U.S. Equities	15,847	(253,036)	(237,189)	6,685
International Equities	28,009	(447,238)	(419,229)	(51,368)
Foreign Currency	152	(41)	111	-
Mortgages	23,180	7,997	31,177	19,410
Real Estate	45,830	8,050	53,880	67,988
Private Placements	5,161	(24,763)	(19,602)	(18,628)
	$322,524	$(1,144,441)	$ (821,917)	$ 348,162
Investment Management Costs			(13,550)	(13,644)
Net Investment (Loss) Income			$ (835,467)	$ 334,518

	2003			2002
	Income Allocation	Current Period Change In Market Value	Total	Total
			($ Thousands)	
Inflation Adjustment Account				
Short-term	$ 255	$ 3	$ 258	$ 1,147
Canadian Bonds	57,961	61,566	119,527	35,450
Canadian Equities	12,661	(156,872)	(144,211)	52,576
U.S. Equities	4,825	(79,972)	(75,147)	908
International Equities	9,223	(148,671)	(139,448)	(15,150)
Foreign Currency	43	(11)	32	-
Mortgages	6,975	2,375	9,350	5,865
Real Estate	13,443	2,513	15,956	19,391
Private Placements	326	(155)	171	(730)
	$105,712	$ (319,224)	$(213,512)	$ 99,457
Investment Management Costs			(3,779)	(3,712)
Net Investment (Loss) Income			$(217,291)	$ 95,745

Total Basic and Inflation Adjustment Accounts		
Total Investment (Loss) Income	$(1,035,429)	$447,619
Total Investment Management Costs (Note 9)	(17,329)	(17,356)
Total Net Investment (Loss) Income	$(1,052,758)	$430,263

4. INVESTMENT (LOSS) INCOME (CONTINUED)

The income allocation portion of investment income represents pooled investment portfolio income attributable to the plan, as a unitholder, and as calculated by the bcIMC, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

5. CONTRIBUTIONS

	2003				2002
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Employers' contributions					
Province of British Columbia					
Regular	$69,648	$ 3,109	$ -	$ 72,757	$ 92,855
ERIP Contributions	6,313	1,862	-	8,175	39
Arrears	53	16	-	69	363
Purchase of service	5,045	1,698	-	6,743	3,664
Leave of absence	545	244	-	789	374
Reinstatement	929	14	-	943	1,160
Supplemental benefits	-	-	29,643	29,643	21,467
	$82,533	$ 6,943	$29,643	$119,119	$119,922
Other employers					
Regular	$44,631	$ 5,723	$ -	$ 50,354	$ 48,715
ERIP Contributions	472	128	-	600	-
Arrears	152	59	-	211	10
Purchase of service	1,129	550	-	1,679	1,305
Leave of absence	136	75	-	211	82
Reinstatement	112	-	-	112	-
Supplemental benefits	-	-	18,034	18,034	12,263
	46,632	6,535	18,034	71,201	62,375
Total Employers	$129,165	$13,478	$47,677	$190,320	$182,297
Members' contributions					
Regular	$108,815	$29,732	$ -	$138,547	$140,918
Arrears	129	55	-	184	140
Purchase of service	3,409	978	-	4,387	4,871
Leave of absence	562	153	-	715	435
Reinstatement	2,866	350	-	3,216	4,402
Supplemental benefits	-	-	416	416	122
Total Members'	$115,781	$31,268	$ 416	$147,465	$150,888
Total Contributions	$244,946	$44,746	$48,093	$337,785	$333,185

5. CONTRIBUTIONS (CONTINUED)

Employer regular Basic Account contributions were $115.3 million of which $1.0 million was allocated to the Supplemental Benefits Account. Employer regular Inflation Adjustment Account contributions were $55.5 million, of which $46.7 million was allocated to the Supplemental Benefits Account.

6. ACCOUNT TRANSFERS

	2003		2002	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	($ Thousands)			
Present value of current indexing supplements	$ 69,344	$(69,344)	$ 68,248	$ (68,248)
Indexing of deferred pensions	2,279	(2,279)	1,453	(1,453)
Excess interest	-	-	(33,446)	33,446
	$ 71,623	$(71,623)	$ 36,255	$(36,255)

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account (IAA) is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

6. ACCOUNT TRANSFERS (CONTINUED)

There was no excess interest transfer to the IAA for the year ended March 31, 2003 (2002: $33 million). Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid, $3,261 million of assets for 2003 ($2,787 million for 2002). The excess interest rate of return is determined by taking the difference between the actual market five-year average rate of return and the rate of return used by the actuary (7.3%) in valuing the plan's liabilities. The calculated excess interest rate of return for fiscal 2003 is -5.1% (2002: 1.2%). This negative return will be carried forward and offset against future excess returns.

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry age method.

The most recent full actuarial valuation for funding purposes was prepared as at March 31, 2002. This valuation disclosed a surplus, for basic account pension benefits of $546 million (1999 - $929 million), assuming future contributions at the existing contribution rates in effect at the valuation date.

The main changes between the 1999 and 2002 valuations are as follows:

	($ Millions)
Surplus as at March 31, 1999	$ 929
Investment income in excess of actuarial rate of return	722
Salary increases less than previously assumed	276
Interest on surplus	29
Reduction in contribution rate	(768)
Changes in benefits and actuarial assumptions	(352)
Actual contributions lower than normal cost rate	(183)
Transfer to IAA at January 2001	(107)
Actuarial Surplus as at March 31, 2002	$ 546

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

The next full valuation will be as at March 31, 2005, with results available for the March 31, 2006 financial statements.

The following table shows a key indicator of the financial health of a pension plan, the Basic Account surplus, as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Basic Account Assets (w)	Basic Account Actuarial Liability (x)	Basic Account Surplus (y)	Covered Payroll (z)	Surplus as a Percentage of Payroll (y/z)
		($ Millions)			
1996	8,214	7,992	222	2,212	10%
1999	10,206	9,277	929	2,261	41%
2002	11,698	11,152	546	2,413	23%

If an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account

No unfunded liability exists for the IAA since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the plan rules, nor is there any plan provision or intention to fund the IAA to any minimum level of future potential indexing.

7. OBLIGATION FOR PENSION BENEFITS FOR FUNDING PURPOSES (CONTINUED)

b) Inflation Adjustment Account (continued)

The Public Service Pension Board of Trustees monitors the performance of the Inflation Adjustment Account and, at least annually, reviews the projected impact on the account of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the board to identify some years in advance of its possible occurrence, the point at which the IAA assets may cease to grow and beyond that, the point at which full indexing benefits may not be able to be granted. As long as there are contributions to the Inflation Adjustment Account, there will be some measure of indexing protection for retired members.

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years and its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the plan as described in Note 7a. As part of the actuarial valuation the actuary calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included as they are for the valuation for funding purposes in Note 7a.

The Basic Account is the account from which the defined basic benefits of the plan are paid and from which any indexing that has been granted to retired members, is also paid. Future indexing benefits are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient money is available from the Inflation Adjustment Account to fund those benefits. As indexing is granted, the Basic Account receives from the Inflation Adjustment Account the necessary net present value funding for the granted indexing. Therefore accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

The latest full valuation was made as of March 31, 2002 by Eckler Partners Ltd. Net actuarial assets in the Basic Account as at that date were $9.6 billion (1999 - $7.4 billion). Liabilities for accrued basic pension benefits were $8.0 billion (1999 - $6.3 billion). As a result, on an accrued benefits basis, there was a Basic Account surplus of $1.6 billion (1999 - $1.1 billion). The next full actuarial valuation will be as at March 31, 2005, with results available for the March 31, 2006 financial statements.

8. OBLIGATIONS FOR PENSION BENEFITS FOR ACCOUNTING PURPOSES (CONTINUED)

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes it is required that extrapolations between valuations be calculated and one has been done to March 31, 2003 using the long-term actuarial assumptions. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- annual investment return 7.3%
- annual salary escalation rate 4.8%

On that basis the extrapolated surplus on an accrued benefit basis to March 31, 2003 is $1.7 billion.

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. RELATED PARTY TRANSACTIONS

a) Transfers from Members of the Legislative Assembly ("MLA") Superannuation Account

	2003	2002
	($ Thousands)	
Present value of MLA pensions granted	-	$12,964
Contributions for indexing supplements	-	9
	-	$12,973

When a Member of the Legislative Assembly (MLA) is granted a pension, the present value of the pension is transferred from the Members of the Legislative Assembly Superannuation Account to the Plan, from which monthly benefits are paid.

During the year ended March 31, 2003, no MLA pensions were granted (2002 - 26).

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

9. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Administration Costs

Administration costs include general benefit administration costs, actuarial fees and board expenses. General administration costs incurred by the Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan. Included in benefit administration costs is $8.9 million of Pension Corporation benefit administration costs and in the accounts payable balance is $1.8 million due to the Pension Corporation for those costs.

c) Investment Management Costs

The bcIMC manages investments on behalf of the board and uses internal and external investment managers for this purpose. Total investment management fees for 2003 were $17.3 million (2002 - $17.4 million).

10. SUPPLEMENTAL BENEFITS

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act* (Canada) limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through the account. The availability, type and level of this retiree group benefit coverage is contingent upon the availability of funds within the Supplemental Benefits Account to fund such benefits. To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from employer inflation contributions.

11. COMMITMENTS

The plan participates in the Private Placements and International Equity Pools managed by bcIMC. As at March 31, 2003, the Public Service Pension Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $301 million (2002 - $314 million).

PUBLIC SERVICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2003

12. FINANCIAL INSTRUMENTS

The plan's financial instruments consist of cash, investments, receivables, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values.

The plan's investments are exposed to market risk due to changing market conditions. The plan manages market risk by monitoring asset allocation strategies in relation to asset mix guidelines and by diversifying investments within various asset classes to manage overall market risk.

This is a publication of the Public Service Pension Board of Trustees.
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